

Exh. JDW-24T

Dockets UE-230172 and UE-210852

Witness: John D. Wilson

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**PACIFICORP d/b/a PACIFIC POWER
AND LIGHT COMPANY,**

Respondent.

**DOCKETS UE-230172 and
UE-210852 (*Consolidated*)**

In the Matter of

**ALLIANCE OF WESTERN ENERGY
CONSUMERS'**

**Petition for Order Approving Deferral of
Increased Fly Ash Revenues**

CROSS-ANSWERING TESTIMONY OF

JOHN D. WILSON

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Net Power Costs and Power Cost Adjustment Mechanism

October 27, 2023

TABLE OF CONTENTS

I. INTRODUCTION 1

II. PURPOSE AND SCOPE OF TESTIMONY 1

III. RATE YEAR 3

IV. WASHINGTON BALANCING ADJUSTMENT 4

V. ACKNOWLEDGED NPC ERRORS 8

VI. JIM BRIDGER COAL COSTS 10

VII. POWER COST ADJUSTMENT MECHANISM..... 12

 A. Summary of Response Testimony on Power Cost Adjustment Mechanism 12

 B. Updated Evaluation of the PCAM 15

 C. Recommended Changes to PCAM 18

VIII. OTHER ISSUES FOR FUTURE PROCEEDINGS 20

LIST OF EXHIBITS

- Exh. JDW-25 AWEC Response to UTC Staff Data Request 7
- Exh. JDW-26 PacifiCorp Response to UTC Staff Data Request 157, 2nd supplemental
- Exh. JDW-27 PacifiCorp Response to UTC Staff Data Request 153, 1st supplemental
- Exh. JDW-28 PacifiCorp Response to UTC Staff Data Request 158
- Exh. JDW-29 AWEC Response to UTC Staff Data Request 2
- Exh. JDW-30 PacifiCorp Response to UTC Staff Data Request 156, 2nd supplemental
- Exh. JDW-31 PacifiCorp Response to UTC Staff Data Request 159

1 I. INTRODUCTION

2

3 Q. Are you the same John D. Wilson who submitted response testimony in this
4 proceeding on September 14, 2023, on behalf of the Washington Utilities and
5 Transportation Commission Staff (Staff)?

6 A. Yes.

7

8 Q. Have you prepared exhibits in support of your testimony?

9 A. Yes. I prepared Exh. JDW-25 through Exh. JDW-31. These documents are described
10 above in my List of Exhibits. The information contained in these exhibits is correct to the
11 best of my knowledge and belief.

12

13 II. PURPOSE AND SCOPE OF TESTIMONY

14

15 Q. Please state the purpose of your testimony.

16 A. The purpose of my testimony is to answer certain findings and recommendations
17 contained in the testimonies of Alliance of Western Energy Consumers (AWEC) witness
18 Mullins, Public Counsel witness Earle, and Sierra Club witness Binz.

19

20 Q. What is the scope of your testimony?

21 A. My testimony updates my recommended revisions to the 2024 forecast NPC and
22 responds to opinions and findings related to PacifiCorp's proposed changes to the
23 PCAM's deadband and sharing bands.

1 **Q. Please summarize the additional corrections you recommend for NPC.**

2 A. The Commission should require use of forecast NPC that is as closely aligned with the
3 effective period of NPC rates as practicable, and should not approve PacifiCorp's
4 proposed forecast NPC that is based on a calendar year forecast because it unreasonably
5 results in higher power cost rates. If confirmed, the forecast NPC should be updated to
6 correct five additional errors acknowledged by PacifiCorp since I filed my response
7 testimony.

8 I also recommend that if the Commission finds that witness Mullins is correct
9 regarding his concern that in some hours the Washington Balancing Adjustment method
10 results in unreasonably higher costs to Washington customers due to a mismatch between
11 actual system dispatch and the method, then it should require PacifiCorp to revise
12 forecast NPC accordingly.

13
14 **Q. Are you providing a revised proposal for NPC?**

15 A. No. While I continue to recommend that the Commission accept each of the
16 recommended corrections to forecast NPC described in Table 1 of my response
17 testimony¹, I am unable to update my recommendations at this time. It is my
18 understanding that Judge Howard's ruling on October 12, 2023 requires PacifiCorp to
19 provide Staff with a response to Staff data request 155, which should include the
20 requested additional Aurora model results, by November 30, 2023. I require these results
21 in order to provide the Commission with recommended corrections to forecast NPC.

22 Similarly, because of this extended deadline, I am unable to update my recommended

¹ Wilson, Exh. JDW-1T at 8.

1 revisions to Company Exhibits SLC-5.1 and SLC-5.2 to support the testimony of Staff
2 witness Huang.

3 Thus, while I am able to recommend that the Commission should correct
4 PacifiCorp's proposed forecast NPC to address known errors, I may need to file revised
5 cross-answering testimony in early December to supply exhibits quantifying the
6 recommended corrections.

7
8 **Q. What is your response to opinions and findings related to PacifiCorp's proposed**
9 **changes to the PCAM's deadband and sharing bands?**

10 A. In my discussion of the opinions and findings presented by witnesses Earle, Mullins, and
11 Binz, I make two updates to my findings to reflect agreement with points made by
12 witness Mullins. These updates slightly strengthen the support for the recommendations I
13 made in response testimony for rejecting PacifiCorp's proposed changes to the PCAM
14 and providing alternate recommendations. In Section VII.C below, I elaborate on those
15 recommendations and explain their relative importance.

16
17 **III. RATE YEAR**

18
19 **Q. What is the rate year in which the proposed 2024 forecast NPC would be recovered?**

20 A. The suspension date established in Order 03/01 (issued May 24, 2023) is March 19, 2024.
21 It is my understanding that the Commission has interpreted the suspension date to require
22 an order on the rates by the suspension date, and that rates would go into effect as soon
23 after that date as practicable. If the order is issued on March 19, 2024, it is reasonable to

1 assume that RY1 rates will go into effect on April 1, 2024 given the time required for
2 PacifiCorp to file compliant tariffs and for the Commission to review them. This will
3 result in a rate year of April 1, 2024 to March 31, 2025.
4

5 **Q. Is the cost forecast used by PacifiCorp concurrent with the rate year?**

6 A. No. PacifiCorp's forecast NPC are based on a calendar year 2024.
7

8 **Q. Is the mismatch between the forecast cost year and the rate year likely to be
9 significant?**

10 A. Yes. AWEC witness Mullins identifies two material issues that he believes significantly
11 affect forecasted power costs during the rate year. I concur with his observations, and do
12 not believe that PacifiCorp's forecast NPC are based on the most up-to-date information
13 available to the Commission.

14 The first and most significant issue identified by witness Mullins is the effect of
15 the conversion of Jim Bridger Units 1 and 2 into gas fired operation.² PacifiCorp's
16 forecast NPC are based on the assumption that the units will be out of service from
17 January to April 2024. Gas fuel expense at Jim Bridger is forecast to be \$25.9 million in
18 2024, compared to \$106.2 million in total coal and gas fuel expense.

19 Witness Mullins observes that when the two Jim Bridger units are out of service,
20 Washington is in a net short position and the WIJAM results in assigning significant costs

² Mullins, Exh. BGM-1CT at 20.

1 to Washington customers based on the modeled cost of sales and purchases.³ He
2 estimates that approximately 76 percent of costs related to Washington’s short position
3 can be attributed to the Jim Bridger outage, mainly in January and February of 2024.⁴

4 The second issue identified by witness Mullins is the effect of several wind
5 facilities that will come online during the rate year. They state that the use of a calendar
6 year NPC calculation misstates the benefits from those facilities.⁵

7
8 **Q. Is PacifiCorp’s proposal to use a forecast test year that is misaligned with the rate**
9 **year supported by law?**

10 A. No. WAC 480-07-510(3)(c)(ii) states that “Pro forma fixed and variable power costs, net
11 of power sales, may be calculated directly based either on test year normalized demand
12 and energy load, or on the future rate year demand and energy load factored back to test
13 year loads.” The Company’s filed Pro Forma NPC, Exh. SLC-5.1.1 for the 12 Months
14 Ended December 2024 is neither based on the test year nor on the future rate year and
15 should be corrected.

16 PacifiCorp may argue that it is generally reasonable to use calculations for a
17 period that is not exactly the same as the rate year. In circumstances where the
18 Commission adjusts the rate year late in the rate-setting process, or where the difference
19 is likely to be of limited materiality, I would agree. Neither of those circumstances exist
20 in this situation, since the Commission set the suspension date five months ago, and the
21 Jim Bridger outage is of significant materiality.

³ *Id.* at 35.

⁴ *Id.* at 35-36; Wilson, Exh. JDW-25, AWEC response to WUTC DR 7.

⁵ *Id.* at 35.

1 **Q. How might customers be harmed by mismatched forecast NPC?**

2 A. If rates are set higher than they would be using forecast NPC matched to the rate year,
3 then PacifiCorp will be more likely to overcollect revenues. While under the existing or
4 my recommended PCAM there would be a refund, the refund would not be 100 percent.
5 The impact of the mismatched forecast on revenues could result in a windfall to
6 PacifiCorp.

7
8 **Q. What is your recommendation?**

9 A. The Commission should not approve NPC based on a calendar year forecast. It should
10 require use of forecast NPC that is as closely aligned with the effective period of NPC
11 rates as practicable.

12

13 **IV. WASHINGTON BALANCING ADJUSTMENT**

14

15 **Q. Please summarize the method PacifiCorp uses to address shortfalls in Washington**
16 **jurisdictional generation to serve Washington jurisdictional load.**

17 A. PacifiCorp determines the shortfall in generation by “comparing the Washington load to
18 the generation and market activity (resources) that are allocated to Washington.”⁶ In the
19 future, the shortfall in generation could become an excess in generation, but currently the
20 resources allowed to be allocated to Washington are less than all the resources on the
21 system, so it is likely that most months will have a shortfall. This shortfall (or excess) is
22 also referred to as a net short position (negative in the case of an excess). PacifiCorp

⁶ Mitchell, Exh. RJM-1CTr at 10.

1 addresses monthly shortfalls by reducing system balancing sales and then adding in
2 system balancing purchase to achieve a balance in supply and demand for each month.
3 The additional system balancing purchase, which may exceed actual system balancing
4 purchases, is priced at the average monthly price of system balancing purchases.⁷
5

6 **Q. What concerns have been raised about this method?**

7 A. AWEC witness Mullins notes that in its Washington Balancing Adjustment, PacifiCorp
8 assumes that Washington's net short position is filled entirely using market purchases and
9 sales. He also expresses concern about using a monthly, rather than an hourly evaluation
10 of the net short position. Witness Mullins' evaluation of the Company's Aurora modeling
11 shows that in the total-company scenario, Washington's gas plants are often ramped
12 down in favor of non-Washington plants, not market purchases.⁸
13

14 **Q. Does PacifiCorp agree with this critique?**

15 A. No. PacifiCorp states that it is not reasonable to assign costs to serve Washington load on
16 the basis of available Washington gas unit dispatch cost.⁹
17

18 **Q. Do you have any recommendations on this issue for the Commission?**

19 A. Not at this time.

20 To the extent that actual system balancing purchases exist in hours in which there
21 is a net short position, it is reasonable for PacifiCorp to allocate the cost of additional

⁷ *Id.*

⁸ Mullins, Exh. BGM-1CT at 38-41.

⁹ Wilson, Exh. JDW-26, PacifiCorp 2nd supplemental response to WUTC Data Request 157.

1 system balancing purchases to Washington customers to fill the net short position. But I
2 agree in principle with witness Mullins that it is not reasonable to price Washington's net
3 short position based on the average monthly price of system balancing purchases if that
4 power could have been supplied at a lower cost by dispatching Washington-jurisdictional
5 gas plants.

6 In hours in which there are insufficient actual system balancing purchases to fill
7 Washington's net short position, witness Mullins may be correct that Washington's gas
8 plants are often ramped down in favor of non-Washington plants. However, performing
9 Aurora modeling to verify witness Mullins' finding is outside the scope of my testimony,
10 so I am unable to make a specific recommendation on this topic.

11 If the Commission finds that witness Mullins is correct, then I recommend that it
12 direct PacifiCorp to revise its Washington Balancing Adjustment method accordingly.

13 14 **V. ACKNOWLEDGED NPC ERRORS**

15
16 **Q. Has PacifiCorp acknowledged any additional errors in its NPC filing since you filed**
17 **your response testimony?**

18 A. Yes, there are five new errors that have been acknowledged. In a response to a data
19 request, PacifiCorp stated that it has become aware of seven additional material errors
20 affecting Washington NPC. One of the issues appears to be the energy imbalance market
21 (EIM) greenhouse gas benefit calculation discussed in Section III of my response
22 testimony. Also, PacifiCorp has acknowledged that it agrees with AWEC witness

1 Mullins¹⁰ that the Ozone Transport Rule (OTR) will not be enforced in calendar year
2 2024.¹¹

3 The other five issues are:

- 4 • Contingency reserve requirement calculation
- 5 • In-model shadow price calculation
- 6 • Short-term physical power transaction calculation
- 7 • Thermal generation fuel startup cost calculation
- 8 • Wind capacity factor calculation¹²

9 However, PacifiCorp has not provided any details regarding these five issues,
10 so I am unable to verify these issues.

11
12 **Q. Should these errors be corrected in forecast NPC?**

13 A. If these errors are confirmed, then the forecast NPC should be corrected based on the
14 most up-to-date information available. As noted in Section II, it is my understanding that
15 Judge Howard's ruling on October 12, 2023 requires PacifiCorp to provide additional
16 Aurora model results to Staff by November 30, 2023. I require these results in order to
17 provide the Commission with recommended corrections to forecast NPC.

18 Thus, while I am able to recommend that the Commission should correct
19 PacifiCorp's proposed forecast NPC to address known errors, I may need to file Revised

¹⁰ Mullins, Exh. BGM-1CT at 46. Witness Mullins testified that Jim Bridger would not be subject to the final OTR.

¹¹ Wilson, Exh. JDW-27, PacifiCorp 1st supplemental response to WUTC DR 153. PacifiCorp states that this affects all Company plants, not just Jim Bridger.

¹² Wilson, Exh. JDW-28, PacifiCorp response to WUTC DR 158.

1 Testimony in early December to supply exhibits quantifying the recommended
2 corrections.

3
4 **VI. JIM BRIDGER COAL COSTS**

5
6 **Q. Please summarize the potential issue with Jim Bridger coal costs.**

7 A. AWEC witness Mullins points out that the stipulation in the 2020 GRC establishes a ten-
8 year regulatory liability for Bridger Coal Company depreciation and reclamation costs.
9 They argue that “PacifiCorp continued to include the Jim Bridger mine in rates in
10 conjunction with its proposal to operate the Jim Bridger power plants through 2025,” and
11 “neglected to make an adjustment to exclude the depreciation and reclamation costs
12 beyond 2023.”¹³

13 Witness Mullins believes that the depreciation and reclamation costs are included
14 in the Bridger coal prices used in PacifiCorp’s Aurora modeling because they understand
15 “that the coal costs ... cover 100% of the BCC budget.”¹⁴ However, witness Mullins has
16 not performed any calculation to verify his understanding.¹⁵

17
18 **Q. Does PacifiCorp agree that it neglected to properly adjust coal costs at Jim Bridger?**

19 A. No, but its position implicitly acknowledges that its proposed forecast NPC is not
20 consistent with the 2020 GRC settlement. The settlement establishes an \$11.8 million per

¹³ Mullins, Exh. GBM-1CT at 32-33.

¹⁴ Wilson, Exh. JDW-29, AWEC response to WUTC DR 2.

¹⁵ *Id.*

1 year revenue requirement to recover reclamation and depreciation costs for Bridger Mine
2 reclamation costs beyond 2023.¹⁶ PacifiCorp states that it proposes to revise the exit date
3 for Jim Bridger coal units from 2023 to 2025 and that it has recalibrated the incremental
4 depreciation and reclamation costs to reflect these assumptions.¹⁷ Thus, witness Mullins
5 correctly identifies that PacifiCorp's proposal is inconsistent with the settlement
6 agreement, but the problem appears to be that PacifiCorp's explanation of its proposal
7 was incomplete or confusing.

8
9 **Q. Is there an error in NPCs?**

10 A. Probably not. If the Commission approves the proposal to revise the exit date for Jim
11 Bridger coal units from 2023 to 2025, then PacifiCorp's method of calculating coal costs
12 for the Jim Bridger units' contribution to NPC appears to be consistent with the intent of
13 the settlement. I note that verification of PacifiCorp's recalibrated incremental
14 depreciation and reclamation costs is beyond the scope of my testimony.

15 However, if the Commission does not approve revision to the exit date agreed to
16 in the settlement, then forecast NPC should not include any fuel costs for coal at Jim
17 Bridger. As this would be a major modification to proposed NPCs, if the revised exit date
18 is rejected, the Commission would need to direct PacifiCorp to recalculate forecast NPC.

19

¹⁶ *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Dockets UE-191024 et al., Order 09, Appendix B Settlement Stipulation, 11, ¶ 27 (Dec. 14, 2020).

¹⁷ Wilson, Exh. JDW-30, PacifiCorp 2nd supplemental response to WUTC DR 156.

1 **VII. POWER COST ADJUSTMENT MECHANISM**

2

3 **A. Summary of Response Testimony on Power Cost Adjustment Mechanism**

4

5 **Q. Please summarize AWEC witness Mullins’ response to PacifiCorp’s proposal to**
6 **revise the power cost adjustment mechanism (PCAM).**

7 A. AWEC witness Mullins recommends that the Commission reject PacifiCorp’s proposal
8 because “the PCAM is functioning as the Commission intended, and the Commission has
9 repeatedly rejected the arguments that PacifiCorp has raised with respect to the PCAM in
10 this case.”¹⁸ Witness Mullins’ testimony on this point largely consists of his perspective
11 on the history of the PCAM mechanism.

12 I generally disagree with witness Mullins’ point that, “[n]othing has substantially
13 changed to warrant a change to the current practice, nor a change to Commission
14 precedent.”¹⁹ As discussed in my response testimony, the Commission now has the
15 benefit of several years of experience with the current practice. As summarized in my
16 findings below, that experience as well as anticipated changes in the market all support
17 updating the PCAM design.

18 Witness Mullins includes a brief discussion of the function of the PCAM which
19 he views as demonstrating that the PCAM is functioning as intended. In addition to
20 responding to their findings, I will respond to several of their statements in Section VII.B.

21

¹⁸ Mullins, Exh. BGM-1CT at 64.

¹⁹ *Id.* at 67.

1 **Q. Please summarize Public Counsel witness Earle’s response to PacifiCorp’s proposal**
2 **to revise the PCAM.**

3 A. Public Counsel witness Earle makes several points that are similar to those in my
4 response testimony, as follows:

- 5 • Non-EDAM costs remain a large portion of net power costs.²⁰
- 6 • PacifiCorp retains the responsibility to optimize the cost of fuel and variable
7 costs of power dispatched through the EDAM.²¹
- 8 • PacifiCorp uses long-term contracts and hedging to address volatility,
9 optimizing costs on behalf of all of its service territories, which may ignore
10 consequences specific to Washington.²²

11 Witness Earle also makes the point that the PCAM provides an important incentive for
12 cost control that would be shifted to the Commission and intervenors if the Company’s
13 proposed changes to the PCAM are approved.²³ While witness Earle and I agree on
14 several points, I am not convinced that the existing PCAM results in the best outcome for
15 customers.

16
17 **Q. Please summarize Sierra Club witness Binz’s response to PacifiCorp’s proposal to**
18 **revise the PCAM.**

²⁰ Earle, Exh. RLE-1CT at 4.

²¹ *Id.* at 4, 6.

²² *Id.* at 7-8.

²³ *Id.* at 8-9.

1 A. Sierra Club witness Binz notes that the fossil fuels expense for Company generation is
2 the largest component of NPC.²⁴ He then argues that PacifiCorp witness Painter does not
3 give sufficient weight to the role of natural gas prices in actual vs. forecast NPC, and too
4 much weight to the role of wind and solar performance.²⁵ Similar to witness Earle,
5 witness Binz notes that PacifiCorp retains the responsibility to optimize fuel and variable
6 costs of power dispatched through the EDAM.²⁶ I agree with these points.

7 Witness Binz poses a hypothetical that if 100 percent of energy needs were met
8 with solar, wind, geothermal and storage resources, there would be no cost fluctuation.²⁷
9 I disagree with this point. In Mr. Binz’s thought experiment, such a system would, at
10 times, need to either curtail generation or trade with other parties. The net effect of the
11 curtailments (with contractual costs) and trades could be positive or negative and would
12 vary from year to year. As noted above though, I do agree with his general point
13 regarding the role of natural gas prices in actual vs. forecast NPC.

14 Witness Binz also argues that the \$17 million PCAM threshold should be retained
15 because it “reduces regulatory costs, eliminates relatively small adjustments to customer
16 bills and avoids all the overhead costs that entails.”²⁸ For the reasons discussed in my
17 response testimony,²⁹ I do not agree that the \$17 million PCAM threshold should be
18 retained. Below I will discuss revisions to my recommendations to address the
19 unnecessarily large rate fluctuations that have resulted from the current PCAM design.

²⁴ Binz, Exh. RJB-1T at 8-9.

²⁵ *Id.* at 14, 16, 17-18.

²⁶ *Id.* at 25-26.

²⁷ *Id.* at 20.

²⁸ *Id.*, Exh. RJB-1T at 26.

²⁹ Wilson, Exh. JDW-1CT at 37-38.

1 **B. Updated Evaluation of the PCAM**

2
3 **Q. Please summarize the findings in your response testimony that you recommended**
4 **the Commission consider when evaluating potential reforms to the PCAM.**

5 A. In my response testimony, I pointed out the following problems:

- 6 • The current PCAM can result in an unbalanced outcome.³⁰
- 7 • PacifiCorp will have less direct control over NPC when it joins the EDAM.³¹
- 8 • PacifiCorp will continue to have significant control or influence over a
9 number of NPC drivers.³²
- 10 • As the portion of power supplied by renewable generation grows, NPC
11 variability will increase.³³
- 12 • The PCAM mechanism has resulted in substantially more customer “losses”
13 than Company “losses.”³⁴
- 14 • The PCAM deferral account approach results in rate fluctuations.³⁵
- 15 • The deadband results in PacifiCorp retaining 100 percent of costs that are
16 avoided, even if PacifiCorp plays no role in the cost reduction.³⁶

³⁰ *Id.* at 22.

³¹ *Id.* at 23-24.

³² *Id.* at 24-25.

³³ *Id.* at 27-28.

³⁴ *Id.* at 31.

³⁵ *Id.* at 32-33, 37-38.

³⁶ *Id.* at 34.

- 1 • The motivation to PacifiCorp staff to control costs is a result of multiple state
2 risk-sharing mechanisms—Washington’s mechanism is only a fraction of the
3 overall risk/reward consideration.³⁷
4

5 **Q. Do you have any updates to those findings?**

6 A. Yes, in Table 3 of my response testimony, I identified several drivers of NPC that remain
7 within the control or influence of PacifiCorp. Witness Mullins makes the point that
8 PacifiCorp’s participation in organized markets will still require “skill and diligence,”
9 including “all the same planning and trading activities as bilateral markets, if not
10 more.”³⁸ I would like to update those drivers to explicitly recognize the point made by
11 witness Mullins. Even if the CAISO takes responsibility for the execution of market
12 transactions through the EDAM, PacifiCorp staff will need to maintain a high level of
13 technical understanding of the market in order to maintain prudent procurement,
14 operational and non-EDAM market transaction practices.³⁹

15 On the other hand, witness Mullins, referencing PacifiCorp witness Painter’s
16 Figure 1,⁴⁰ believes that the experience of the PCAM to date “is not indicative of a
17 bias.”⁴¹ Witness Mullins’ belief is simply an assertion of an opinion, and does not
18 consider the possibility that customer losses will continue to exceed Company losses in
19 the future due to the effect of the deadband. As noted in my response testimony,

³⁷ *Id.* at 34-35.

³⁸ Mullins, Exh. BGM-1CT at 71.

³⁹ PacifiCorp has not yet forecast the cost impact of joining the EDAM. Wilson, Exh. JDW-31, PacifiCorp response to WUTC DR 159.

⁴⁰ Painter, Exh. JP-1T at 8.

⁴¹ Mullins, Exh. BGM-1CT at 69.

1 PacifiCorp retains 100 percent of any costs avoided within the deadband, even if
2 PacifiCorp plays no role in the cost reduction.

3 In fact, witness Mullins argues that he expects forecast NPC to overstate actual
4 NPC because, “if anything, increasing price volatility results in systematically higher
5 forward market prices” due to price premiums [to hedge market participants’ risk].⁴² I
6 agree with this observation, as I have observed this effect in power markets where I
7 advise clients on the competitiveness of standard offer service procurements.

8 In my response testimony, I focused on the impact of the share of power from
9 increasing renewable energy, which would tend to result in actual NPC to exceed forecast
10 NPC. Reflecting on witness Mullins’ point and my experience in recent power markets, I
11 now think that it is more likely that forecast NPC will tend to exceed actual NPC. This
12 would tend to bias the effect of the current sharing mechanism towards a continued trend
13 of customer losses.

14 As long as there is a bias towards forecast NPC exceeding actual NPC, as there
15 has been in all but one year since 2016, the deadband mechanism will result in over-
16 recovery by the Company of its actual costs. For this and other reasons outlined in my
17 testimonies, I continue to recommend that the Commission eliminate the deadband as
18 part of updating the risk sharing mechanism.
19

⁴² *Id.*

1 **C. Recommended Changes to PCAM**

2
3 **Q. Please summarize the changes to the PCAM you recommended in your response**
4 **testimony.**

5 A. I recommend changes to the PCAM's deadband and sharing bands as well as the rate
6 adjustment threshold. While the Company proposes eliminating both the deadband and
7 sharing bands, I recommend eliminating the deadband, adopting a 90/10 risk sharing
8 mechanism, and revising the rate adjustment threshold to \$7 million with revenue
9 recovery set at 50 percent of the deferral account balance.

10
11 **Q. Do you recommend any additional changes to the PCAM?**

12 A. No. After carefully considering the positions of other witnesses, I maintain that the
13 Commission should adopt my recommended changes to the PCAM mechanism. I would
14 note that the most important changes are elimination of the deadband and revising the
15 rate adjustment threshold. These are both mechanisms that affect Washington customers
16 directly and do not provide meaningful incentives to manage or control power costs.

17 As I also stated in my response testimony, the risk sharing mechanism should be
18 retained and a 90/10 customer/company split provides a reasonable balance of incentive
19 to manage or control power costs with an equitable sharing of risk. However, since the
20 Company will view this risk sharing from a multi-state perspective, I do not believe that
21 the exact split will have a large impact on the Company's internal incentive structures.
22 The Commission may reasonably view a different split as representing an equitable
23 sharing of risk between Customers and the Company.

1 I agree with witnesses Earle, Mullins and Binz that it is important to retain a risk
2 sharing mechanism in order to provide a meaningful incentive to manage or control
3 power costs. Thus, maintaining the current deadbands and sharing bands is a superior
4 alternative to PacifiCorp's proposal to eliminate both.

5
6 **Q. When should the Commission implement your recommendation for revision of the**
7 **PCAM?**

8 A. In my response testimony, I recommend that the Commission implement these
9 recommendations for 2025, when EDAM participation was scheduled to begin. However,
10 PacifiCorp has updated the schedule for EDAM participation to 2026.⁴³

11 Staff witness McGuire's response testimony recommends that rather than accept
12 PacifiCorp's proposal to "update" base rates on January 1, 2026, the Commission should
13 order PacifiCorp to remove coal from rates by (a) revising the rates for Staff's proposed
14 tracker for Colstrip Unit 4 and Jim Bridger Units 3-4, and (b) filing a power cost only rate
15 case (PCORC) in April 2025, with rates effective January 1, 2026.⁴⁴

16 The new EDAM participation schedule is aligned with this recommendation. By
17 April 2025, PacifiCorp should have a better understanding of how to forecast power costs
18 in the EDAM, and it will become more appropriate to update the PCAM at that time.
19 Accordingly, I recommend that the current PCAM remain in effect through the end of
20 2025, and that the Commission adopt my recommendations effective for the rate year

⁴³ Wilson, Exh. JDW-31, PacifiCorp response to WUTC DR 159.

⁴⁴ McGuire, Exh. CRM-1T at 55:1-5.

1 beginning January 1, 2026, which is the date the rates for Staff’s proposed PCORC would
2 go into effect.

3 That said, many of the reasons that I recommend changes to the PCAM are
4 relevant today, and it would also be reasonable to update the PCAM effective with the
5 2024 rate year.

6
7 **VIII. OTHER ISSUES FOR FUTURE PROCEEDINGS**

8
9 **Q. Are other issues raised in response testimonies that you would like to address?**

10 A. Yes. Public Counsel witness Earle discusses issues with operating and maintenance
11 (O&M) costs in his testimony.⁴⁵ While the substance of his recommendations are not
12 related to NPC, as discussed in my response testimony, PacifiCorp has acknowledged
13 errors in its thermal unit O&M costs, and provided updated Aurora model results.⁴⁶ This
14 demonstrates that inaccuracies in O&M cost rates affect NPC.

15 To ensure that O&M data are properly supported, I recommend that the
16 Commission order PacifiCorp to include workpapers providing the actual O&M costs and
17 the calculation of O&M cost rates used in its forecast NPC in future filings.

18
19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.

⁴⁵ Earle, Exh. RLE-1CT at 9-12.

⁴⁶ Wilson, Exh. JDW-1CT at 17.